

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE REQUEST OF U.S. 60 WATER DISTRICT OF )  
SHELBY AND FRANKLIN COUNTIES, FOR A ) CASE NO.  
DEVIATION FROM 807 KAR 5:066, SECTION 12 ) 10091  
REGARDING WATER EXTENSION )

O R D E R

On November 20, 1987, U.S. 60 Water District ("Water District") filed a proposed regulation dealing with the extension of distribution mains. On February 22, 1988, Water District filed an amended version of its proposed regulation. As the proposed regulation contains provisions which differ from Commission Regulation 807 KAR 5:066, it may not be placed into effect without prior Commission approval.<sup>1</sup>

Under current Commission Regulations, a water utility is required to extend its existing distribution main up to 50 feet without charge to an applicant for service who contracts to use the service for 1 year or more. 807 KAR 5:066, Section 12(1). If the extension to serve an applicant or group of applicants exceeds 50 feet per applicant, a water utility may require the applicants

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<sup>1</sup> "Nothing contained herein shall be construed to prohibit the utility from making extensions under different arrangements provided such arrangements have been approved by the Commission." [Emphasis added]  
807 KAR 5:066, Section 12(4).

to pay the total cost of the excessive footage over 50 feet per applicant.<sup>2</sup> For 10 years following the construction of the extension, the water utility is then required to refund to those paying for the excess footage the cost of 50 feet of the extension for each additional customer whose service line is directly connected to the extension. 807 KAR 5:066, Section 12(2).

Commission Regulations permit a utility to require a subdivision developer to pay the entire cost of an extension to service the proposed development. For the 10 years following the extension construction, however, the water utility must refund to the developer the cost of 50 feet of the extension for each additional customer connected to the extension. 807 KAR 5:066, Section 12(3).

Water District's proposed regulation differs from the Commission Regulation in three respects. First, in addition to the initial applicants, it requires all customers connected to an extension within 10 years of its completion, to contribute to the cost of the extension. Initial customers would still pay the cost of the extension in excess of 50 feet per customer. Later customers would contribute an amount based upon a recomputation of

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<sup>2</sup> The cost of 50 feet of the extension is to be based on the average cost per foot of the total extension. 807 KAR 5:066, Section 12(2)(a).

Water District's portion of the total cost<sup>3</sup> and earlier customer contributions. Later contributions would be refunded to earlier customers to equalize the amount of contribution for each customer connected to the extension.

Water District asserts that this feature of the proposed regulation will more fairly allocate the cost of main extensions and promote further main extensions. The Commission agrees. Under Commission Regulation 807 KAR 5:066, Section 12(2), initial applicants for service must bear most of the cost of main extensions. Customers who are later connected to the extensions contribute nothing. Although such initial applicants receive a refund from Water District for each new customer connected to the main extension, this refund will not usually allow for a significant reduction or recoupment of investments for long extensions in sparsely populated areas. (Such conditions exist in Water District's service area.) As a result, potential customers are either unwilling or unable to make the investment necessary to construct the extension.

Water District's proposed regulation eliminates this problem by spreading the cost of a main extension over a larger group of customers, thus reducing the ultimate investment of initial customers. By reducing a prospective customer's incentive to delay in applying for service until a main extension has been

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<sup>3</sup> Water District would still be required to refund the cost of 50 feet of the extension per new customer connected to the extension.

constructed and placed in service,<sup>4</sup> the regulation should encourage more prospective customers to apply for service before an extension is constructed and, thus, lower the average initial customer contribution to the extension's cost. The proposed regulation will not change the amount or share of an extension's cost which the Water District must bear.

Another difference between Water District's proposed regulation and Commission Regulation 807 KAR 5:066, Section 12, is the proposed regulation's provision which permits the Water District to recover surplus funds which it uses to finance main extensions. The proposed regulation contains specific criteria<sup>5</sup> which, when met, would allow Water District to contribute surplus funds to the construction of main extensions. These funds would be recovered from the contributions of customers who are later connected to the extension prior to any refund to earlier customers.

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<sup>4</sup> Commission Regulations currently do not require a customer who is connected to an existing extension to make any contribution to that extension's construction. It is not uncommon for some prospective customers of water utilities to wait until an extension has been completed before applying for service and, thus, to avoid any cost of the main extension.

<sup>5</sup> The following criteria must be met before surplus funds will be used:

1. Surplus funds exist.
2. A substantial opportunity for repayment of the surplus funds expended exists.
3. The proposed extension will not otherwise be constructed.
4. The initial customers unanimously agree to allow Water District to recover its surplus funds before refunds will be made to them.

Water District argues that this feature of the proposed regulation will allow it to "reduce the up-front per-applicant contribution cost, yet provide for repayment of the District's surplus contribution."<sup>6</sup> The Commission believes that this feature will promote the construction of main extensions without requiring existing customers to subsidize such construction. Provided Water District uses its surplus funds in a nondiscriminatory manner and obtains the unanimous consent of initial customers to its recovery plan, this feature is reasonable and fair.

The final difference between the proposed regulation and Commission Regulation is its treatment of main extensions to proposed real estate subdivisions. Applicants seeking an extension to a proposed real estate subdivision are required by the proposed regulation to pay the entire cost of the extension without the benefit of any refund for customers who are later connected to the extension.

This feature of the proposed regulation represents a significant departure from existing Commission policy. The Commission has long held that a water utility must assume some of the cost of a main extension unless it and its prospective customer agree otherwise. Water District has presented no evidence to demonstrate the need for this rule nor has it provided any justification for requiring a subdivision developer to totally finance a main extension which will benefit Water District and

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<sup>6</sup> Letter from Mr. Donald T. Prather to PSC (February 11, 1988).

its other customers. Without such evidence, we cannot approve this feature of the proposed regulation.

The Commission, after review of the evidence and being advised finds that:

1. The provision of Water District's proposed regulation which requires an applicant seeking a main extension to a proposed real estate subdivision to pay the entire cost of the extension should be disapproved.

2. All other provisions of the proposed regulation are fair, just, and reasonable and should be approved.

IT IS THEREFORE ORDERED that:

1. The provision of the proposed regulation which requires an applicant seeking a main extension to a proposed real estate subdivision to pay the entire cost of the extension be, and it hereby is, disapproved.

2. All other provisions of Water District's proposed regulation be, and they hereby are, approved.

3. Within 30 days of the date of this Order, Water District shall file its tariff with this Commission stating its regulation on distribution extensions containing those provisions approved herein.

Done at Frankfort, Kentucky, this 14th day of July, 1988.

PUBLIC SERVICE COMMISSION

Richard D. Hemmery  
Chairman

Robert M. Davis  
Vice Chairman

Sam N. Williams  
Commissioner

ATTEST:

Executive Director